



RELIEF ASSOCIATION OF THE KEYSTONE
FIRE COMPANY

BERKS COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009 TO DECEMBER 31, 2011

AUGUST 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DePASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Alan Bashore, President
KEYSTONE VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Berks County

We have conducted a compliance audit of the Keystone Volunteer Firefighters' Relief Association pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and mandated by the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010 (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, for the period January 1, 2009 to December 31, 2011.

We conducted this compliance audit in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if the volunteer firefighters' relief association took appropriate corrective action to address the findings contained in our prior audit report; and
2. To determine if the volunteer firefighters' relief association received and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures.

Our audit was limited to the areas related to the objectives identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Keystone Volunteer Firefighters' Relief Association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws and administrative procedures including

the safeguarding of assets. In conducting our audit, we obtained an understanding of the volunteer firefighters' relief association's internal controls as they relate to the association's compliance with those requirements and that we considered to be significant within the context of the audit objectives, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Keystone Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Keystone Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2011, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objectives. Additionally, we performed procedures to provide a reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts that are significant within the context of the audit objectives.

The results of our audit, for the period January 1, 2009 to December 31, 2011, found the Keystone Volunteer Firefighters' Relief Association did not take appropriate corrective action to address the findings contained in our prior audit report, as detailed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found the Keystone Volunteer Firefighters' Relief Association did not, in all significant respects, receive and expend state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, as noted in the findings listed below and discussed in detail in the Findings and Recommendations section of this report; therefore, the Keystone Volunteer Firefighters' Relief Association will be subject to the potential withhold of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid Section of this report. The results of our tests also indicated the Keystone Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2011, had a cash balance of \$7,302 and no investments.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Inadequate Relief Association Bylaws

Finding No. 3 – Failure to Secure Ownership Interest in Jointly Purchased Equipment

The contents of this report were discussed with the management of the Keystone Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

May 8, 2013



EUGENE A. DEPASQUALE
Auditor General

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BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010, (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, the Department of the Auditor General's duty is to audit the accounts and records of every volunteer firefighters' relief association to determine that funds received under the Foreign Fire Insurance Tax Distribution Law, Act of December 18, 1984, (P.L. 1005, No. 205), as amended, 53 P.S. § 895.701 *et seq.* (commonly referred to as Act 205), are properly expended.

The Relief Association of the Keystone Fire Company, herein referred to as Keystone Volunteer Firefighters' Relief Association, is a charitable organization that was formed primarily to afford financial protection to volunteer firefighters and to encourage individuals to participate in volunteer fire service.

Act 118 governs the overall operation of the volunteer firefighters' relief association. The relief association's bylaws define the specific operational procedures by which the volunteer firefighters' relief association conducts business. To fulfill its primary purpose, Act 118 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 118, it is the responsibility of the volunteer firefighters' relief association to choose investments in a proper and prudent manner.

Volunteer firefighters' relief associations receive public tax monies, and the association officers therefore have a responsibility to the public to conduct the association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the association operates in accordance with applicable state laws, contracts, bylaws and administrative procedures.

Act 205 sets forth the computation of the Foreign Fire Insurance Tax Distribution paid to each applicable municipality throughout the Commonwealth of Pennsylvania. The amount of the distribution is based upon the population of each municipality and the market value of real estate within the municipality. Upon receipt of this distribution, the municipality must allocate the funds to the volunteer firefighters' relief association of the fire service organization or fire service organizations, which is or are recognized as providing the service to the municipality. The Keystone Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Jefferson Township	Berks	\$5,000	\$ 5,500	\$ 7,000
Tulpehocken Township	Berks	\$9,907	\$11,151	\$17,614

BACKGROUND (Continued)

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The Keystone Volunteer Firefighters' Relief Association is affiliated with the following fire service organization:

Keystone Fire Company

KEYSTONE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Keystone Volunteer Firefighters' Relief Association has not complied with the following prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster
- Noncompliance With Prior Audit Recommendation –
Inadequate Relief Association Bylaws

We are concerned with the volunteer firefighters' relief association's failure to correct the previously reported audit findings. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

KEYSTONE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in our two prior audit reports, the relief association officials failed to maintain a complete and accurate roster of equipment owned by the relief association. Equipment purchased by the relief association since 2006 totaled \$96,286. The relief association failed to include equipment that was purchased during the prior two audit periods, as well as equipment that was purchased during the current audit period. In addition, while there was evidence of a physical inventory being conducted, the date that the inventory was conducted was not documented. Furthermore, without a complete equipment roster, any physical inventory of equipment conducted would be inadequate because it would not account for all equipment owned by the relief association.

Criteria: Sound business practice dictates the relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association in order to provide an effective accounting control over the relief association's fixed assets. A cumulative equipment roster of all relief association equipment should include the following:

- Types of equipment purchased;
- Dates of purchase;
- Unit costs;
- Names of suppliers;
- Serial numbers, if applicable;
- Current locations of items;
- Final dispositions of sold or damaged equipment; and
- Evidence of the performance and results of an annual physical inventory.

Cause: Even though notified of this condition during our prior audit, relief association officials, again, failed to establish adequate internal control procedures over fixed assets requiring the maintenance of a cumulative equipment roster and evidence of the date that the annual physical inventory of equipment was performed.

KEYSTONE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: The failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association's equipment purchases. In addition, the failure to maintain a detailed equipment roster and evidence of the date that the annual physical inventory of fixed assets was performed prevents adequate accountability for, and safeguarding of, relief association fixed assets. Furthermore, the relief association's continued failure to maintain a complete and accurate equipment roster may lead to the total withholding of state aid, as detailed on page ten of this report.

Recommendation: We, again, recommend the relief association officials maintain a cumulative equipment roster of all relief association owned equipment. Furthermore, the relief association should ensure it continues to perform annual physical inventories of all operable equipment and that the dates of the completion of the physical inventories be sufficiently documented. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

KEYSTONE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inadequate Relief Association Bylaws

Condition: As cited in our prior audit report, the existing bylaws of the Keystone Volunteer Firefighters' Relief Association do not contain all of the provisions required by Act 118 at 35 Pa.C.S. § 7415(c). Specifically, the bylaws do not specify the notice requirements or address the procedure to be followed in calling regular meetings. In addition, the relief association's bylaws contain several provisions that appear to be obsolete. Specifically, the relief association's bylaws contain provisions for a death benefit that the relief association has discontinued and calls for a financial secretary to be one of the relief association officers while the relief association has abolished this position.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(2) states, that the relief association's bylaws shall:

- (2) State the notice requirements and procedure to be followed in calling meetings, as well as quorum requirements for regular and special meetings of the membership and for regular and special meetings of the body which governs the operations of the association between membership meetings, and shall designate that body, whether it be a board of directors, trustees or any similar body such as an executive committee. Unless otherwise provided for in the bylaws, powers and duties of officers, directors and trustees shall be those which normally pertain to such positions in nonprofit corporations.

Furthermore, the relief association bylaws should authorize and clearly specify the criteria to be met before receiving death or relief benefits and the amount of any benefit payments.

Cause: Even though notified of this condition during our prior audit, relief association officials neglected to amend the relief association bylaws to meet the bylaw provisions required by Act 118.

Effect: As a result of the mandatory provisions not being included in the bylaws, the relief association may have conducted its affairs without proper authorization. Furthermore, the relief association's continued failure to amend its bylaws, as required by Act 118, may lead to a total withholding of state aid, as detailed on page ten of this report.

Recommendation: We, again, recommend that relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in Act 118 and properly authorize the operating procedures of the relief association. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

KEYSTONE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

KEYSTONE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure to Secure Ownership Interest in Jointly Purchased Equipment

Condition: During the prior audit period, on January 16, 2006 and May 18, 2007, respectively, the relief association expended \$26,000 towards the joint purchase of a rescue truck and \$13,190 towards the joint purchase of airpacks with the Keystone Fire Company. Furthermore, during the current audit period, on December 8, 2011, the relief association paid \$25,000 for safety equipment that was to be installed on an apparatus. However, the relief association failed to adequately secure its ownership interest in this jointly purchased equipment.

Criteria: Act 118 at 35 Pa.C.S. § 7418(a) states:

The Office of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association receiving money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No. 205), [FN1] known as the Municipal Pension Plan Funding Standard and Recovery Act, as far as may be necessary to satisfy the Auditor General that the money received was or is being expended for no purpose other than that authorized by this subchapter. Copies of all audits shall be furnished to the Governor.

Prudent business practice dictates that the relief association secure its proportional ownership interest in the jointly purchased equipment by executing formal written agreements that enumerates the relief association's proportional share of ownership. Such agreements shall specify that the relief association shall receive its prorated share of the proceeds upon the sale of any of this equipment.

Cause: The relief association was notified of this issue at the conclusion of the fieldwork for the prior audit but failed to take action to rectify these deficiencies. Relief association officials failed to adequately secure its proportional ownership interest in the jointly purchased vehicles and equipment.

Effect: The relief association's failure to adequately secure its proportional share of ownership interest in the jointly purchased equipment places the relief association's ownership interest at risk. Furthermore, relief association's failure to adequately secure its proportional share of ownership interest in the jointly purchased equipment may lead to a total withholding of state aid, as detailed on page ten of this report.

KEYSTONE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We recommend the relief association execute three formal written agreements with the fire company that enumerates the relief association's proportional ownership interest in the jointly purchased equipment as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the items are ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$64,190. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

KEYSTONE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

Conditions, such as those reported in Finding Nos. 1, 2, and 3, may lead to a total withholding of state aid in the future unless those findings are corrected. However, such action will not be considered if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. Such documentation should be submitted by the volunteer firefighters' relief association to: Department of the Auditor General, Bureau of Firefighters' Relief Association Audits, Room 316-D Finance Building, Harrisburg, PA 17120.

KEYSTONE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
ACCOMPANYING EXPENDITURE INFORMATION
FOR THE PERIOD JANUARY 1, 2009 TO DECEMBER 31, 2011

Act 118 at 35 Pa.C.S. § 7412 states: a volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The organization may contain within its membership the members of one or more fire companies and may serve secondary purposes, as set forth in this subchapter, but only if adequate provisions have been first made to serve the primary purpose.

Act 118 at 35 Pa.C.S. § 7416 authorizes the investment of relief association funds and outlines the types of benefits and services that can be provided with volunteer firefighters' relief association funds.

Furthermore, all expenditures must be properly authorized as prescribed in the volunteer firefighters' relief association bylaws and approved at an association meeting.

USES OF FUNDS:

Benefit Services:

Insurance premiums	\$ 5,670
Total Benefit Services	<u>\$ 5,670</u>

Fire Services:

Equipment purchased	\$ 46,751
Equipment maintenance	10,200
Training expenses	560
Total Fire Services	<u>\$ 57,511</u>

Administrative Services:

Miscellaneous administrative expenses	\$ 8
Total Administrative Services	<u>\$ 8</u>



KEYSTONE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Keystone Volunteer Firefighters' Relief Association Governing Body:

Mr. Alan Bashore, President

Mr. Gary Colatosti, Vice President

Mr. Lester Feick, Secretary

Mr. Robert L. Conner, Treasurer

The following municipalities allocated foreign fire insurance tax monies to this relief association and received a copy of this report.

Ms. Lori A. Deck, Secretary
Jefferson Township

Ms. Kathleen M. Boltz, Secretary
Tulpehocken Township

This report is a matter of public record and is available online at www.auditor.gen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditor.gen.state.pa.us.